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The year 2013 proved to be a mixed year for Hungary in terms of its economy and political landscape: While there was a small economic growth towards the end of the year, there were also signs that investments, and especially foreign direct investment, were somewhat receding. It is widely held that the government is finding it challenging to try and balance the prescribed maximum budget deficit and to also establish the grounds for a sustained future economic growth.

Hungarian households are still reluctant to spend more on consumption due to the difficult labour market (with unemployment hovering somewhere around 11%) and the difficulties that many Hungarian households faced while the Hungarian forint dropped in value against the base currency of their foreign currency mortgage loans during the recession years. As for the state budget, its debt stood at around 80% of GDP, with foreign investors holding about 40% of it, which is a high figure when compared to other countries in the region.

In spite of the fact that Hungary enjoys flat income and corporate tax rates, which were cut some years ago in order to improve competitiveness, recent unpredictable and discriminatory “crisis taxes” have undermined confidence in the overall tax regime. Short-term reforms aimed at reducing deficits were not always structurally well-conceived. Some expert circles urge responsible long-term budget reforms and planning in order to address the deficit effectively and to ensure the sustainability of economic growth.

Despite efforts to stamp out corruption more effectively, some concerns remain, particularly in the area of public procurement. Launching a business takes just a couple of days, however it has been said that restrictions on work hours are rigid, with the overall labor legislation largely lacking in flexibility.

Apart from the short summary offered above, please find below a few comments pertaining to the most important political and legislative events of the year 2013.

1. Political situation

Some developments in the year 2013 have hinted at the most important political event that will take place in 2014: In the spring, parliamentary elections will be held, and Hungary's governing party, which won a landslide victory during the last election gaining a two-thirds majority in Parliament, will have to face up to a keenly-contested election campaign. Indeed, opposition leaders have already announced that the campaign will be a "gloves-off" contest. To date, amongst other things, the government has lowered utility prices and public transport costs, and has indulged in major construction projects, presumably in a move to gather popular support for the upcoming election campaign.

Another salient feature in Hungarian politics last year was the continuing row between the Hungarian Government and the EU. For reasons partially arising from the governing party's victory at the last elections (such as the adoption of a new Constitution and ensuing legislation which were said to curtail the independence of the judiciary and the freedom of the press, etc.), tensions between Hungary and the EU steadily built up, and just stopped short of suspending Hungary's voting rights within the EU.

This year's election will also be decided in the light of the economic situation in Hungary. The economic mood is mixed: While Hungarians view the economic performance of their country in a slightly better light towards the end of the year than at the beginning, they are also more fearful of an influx of foreign workers than people in southern and western Europe. This has been attributed to stiff competition on the labour market and a relative fear of the unknown (the proportion of foreign workers is relatively low and people might think that a change may have negative consequences). In this regard, it is also notable that the number of companies operating in Hungary at the end of 2013 dropped as compared to a year earlier, representing a fall for the first time in decades.

2. New legislation and case law

The year 2013 saw a huge amount of legislative activity on the part of the lawmaker: A record amount of bills, government decrees and other regulations were approved last year. Hungary's parliament passed 255 acts alone, 30 more than the year before. A few elements of this legislative activity will be considered below.

2.1 The New Civil Code

The long expected new Civil Code (the "New Civil Code"), after an around ten-year-long codification, was promulgated on 26 February 2013 as Act V of 2013 on the Civil Code. The New Civil Code enters into force on 15 March 2014.

Several novelties are introduced into the New Civil Code, such as the incorporation of commercial law (Book Three, entitled the "Legal Person"), and family law (Book

Four). In Book Three, commercial law is divided into three areas: First, the general rules relating to legal persons, second the rules on business associations, civil associations, foundations, cooperative societies and other legal persons, and finally the specific rules on each form of business association. This solution may provide more freedom in drafting and tailoring corporate documents.

The New Civil Code also introduces a type of trust in Hungary, the so-called ‘fiduciary property management’. The trust is not a legal entity. The owner of the property (which is transferred by a trust deed or by a will) is the trustee and the trust assets form separate property. The beneficiaries don’t have the status of a proprietor, however they have strong, albeit only contractual rights.

The Hungarian parliament also approved two Acts connected with the New Civil Code which amended not only Acts predating the New Civil Code, but also the part of the New Civil Code which is not yet operative.

According to the Act on Transitional Provisions, the New Civil Code shall be applied to legal relationships, contracts, agreements and statements that come into existence after 15 March 2013, (although there will be exceptions). To legal relationships and contracts that already are in existence before the New Civil Code will come into force, the old Civil Code applies, even if a legal dispute opens after 15 March 2013.

2.2 The New Code on Civil Procedure and The New Code on Criminal Procedure

Due to the fact that the New Civil Code and the New Criminal Code will come into force, the Government decided that a New Code on Civil Procedure and a New Code on Criminal Procedure should be adopted as well.

Work on the New Code on Civil Procedure is expected to commence in the second quarter of 2014 and the first draft could be reviewed by the end of the year 2016. It is anticipated that the New Code on Civil Procedure might be adopted some time in 2017. The aim of the Hungarian Government is to create a new, modern and effective Act that meets international requirements.

The New Code on Criminal Procedure is currently discussed by the Government; it is anticipated that it might be adopted by the end of 2014 or in 2015.

2.3 The New Criminal Code

In June 2012 the Hungarian Parliament approved a criminal code which took effect on 1 July 2013 (the “New Criminal Code”), replacing the previous 30-year-old code.

Amongst other changes, the New Criminal Code provides tougher sentences for serious crimes and reoffenders, while it is widely believed that it also increases the protection of children, the elderly and the handicapped. It also extends the scope of justifiable self-defence to people attacked at night by armed persons or groups and to persons using self-defence against armed burglars or gangs breaking and entering property, including gardens.

Pursuant to the New Criminal Code, those serving a life sentence can only be released on probation after 25 years (pursuant to the old criminal code, this figure stood at 20 years). Meanwhile, the court can also impose a 40 year long sentence in certain cases.

Furthermore, the new legislation lowers the age of criminal responsibility from 14 to 12 years in the categories of premeditated homicide, voluntary manslaughter and bodily harm leading to death or resulting in life-threatening injuries if the person in question has the capacity to understand the nature and consequences of his acts. Some civil groups protested against the latter measure (to no avail), arguing that punishing minors by penal means without the chance of any assistance or rehabilitation is “cynical, harmful and seriously endangers their future”.

2.4 Consolidation of the Hungarian Financial Supervisory Authority and the Hungarian National Bank

By Act CXXXIX of 2013 on the Hungarian National Bank, Parliament decided to merge the Hungarian Financial Supervisory Authority (HSFA) and the Hungarian National Bank as of 1 October 2013. Due to this merger, the supervisory and licensing authority for the Hungarian financial, capital, insurance and mutual funds market is the National Bank from October 2013. Since the HFSA also had financial consumer protection competences, these will also now be exercised by the HNB. The Governor (chairman) of the HNB is also entitled to issue decrees. Within the HNB, a Financial Stability Council has been set up, currently consisting of five members, which exercises the powers of the HNB with regards to the supervision of the financial intermediary system.

2.5 A notable decision of the Constitutional Court: The constitutional examination of case transfers by the judiciary

The Constitutional Court handed down its decision in constitutional complaints which claimed that the possibility of judicial case transfer was contrary to the Fundamental Law (which is the constitution of Hungary). The Constitutional Court declared that the provision, which allowed the case transfer, was contrary not only to the Fundamental Law but also to Hungary’s international obligations.

The origin of the the constitutional complaints was that defendants in two criminal cases, who were transferred from the competent courts to other courts that were not competent to decide in the matter but had less workload, turned to the Constitutional Court to object on the gounds that the regulation of the case transfer was contrary to the Fundamental Law.

According to the petitioners, the case transfer violated the essential guarantees of justice. The Constitutional Court also examined, whether the provisions in questions were contrary to the Convention for the Protection of Human Rights and Fundamental Freedoms (Convention on Human Rights). Another argument by the defendants was the level of legal protection provided by the Constitutional Court could not be lower than the level of legal protection provided by the European Court of Human Rights.

The Constitutional Court concluded that the provisions (which have been repealed in the meanwhile) violated the requirements of a fair trial. It pointed out that the right to a judge, who is allocated to a special case by provisions governing competence and jurisdiction, was violated.

The Constitutional Court declared that the provisions in issue violated the requirement of the right to an impartial court as well. The Constitutional Court also held that the examined provisions did not fulfil the requirements of impartiality which are enshrined in the Fundamental Law and the Convention on Human Rights, among other things because the said provisions were not clear and transparent.

The provisions were found to be contrary to the Fundamental Law and the Convention on Human Rights and did not provide the defendants with a remedy against the decision of the President of the National Office for the Judiciary (who decided on the allocation of cases), which were based on the provisions held unconstitutional.